

Message Text

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TO AMEMBASSY ABU DHABI

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SUBJECT: EXIM POLICY ON DUBAI, UAE

REF: (A) STATE 70331, (B) ABU DHABI 0764, (C) ABU DHABI
A69

1. REFTEL A GAVE GENERAL FRAMEWORK OF EXIMBANK'S NEW POL-
ICY TO ASSIST US EXPORTS AND TO OFFER FINANCING TERMS WHICH
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WILL BE COMPETITIVE WITH THOSE OFFERED BY FOREIGN EXPORT
CREDIT AGENCIES. THIS POLICY MUST BE PLACED IN CONTEXT OF
EXIMBANK'S STRUCTURE, A SELF-SUPPORTING INSTITUTION, AND
REQUIREMENT TO HAVE REASONABLE ASSURANCE OF REPAYMENT.
THE LATTER MUST GIVE CONSIDERATION TO BOTH COUNTRY CONDI-
TIONS AND PROJECT VIABILITY. A NEW REQUIREMENT FOR EXIM-
BANK IS TO TAKE ACCOUNT OF HUMAN RIGHTS CONDITIONS IN THE
COUNTRIES.

2. EXIMBANK POLICY ON FINANCING EXPORTS TO OIL RICH COUNTRIES NOW IS TO TAKE FULL ACCOUNT OF NEED FOR EXIM ASSISTANCE SO THAT US EXPORTERS WILL HAVE COMPETITIVE FINANCING. AVAILABILITY OF COMMERCIAL BANK FINANCING ON COMPETITIVE RATES WILL BE EVALUATED AS WELL AS ASSISTANCE BEING OFFERED BY FOREIGN EXPORT CREDIT AGENCIES AND OFFICIAL LOANS FROM THOSE COUNTRIES. EMBASSY REPORTING OF PROJECT FINANCING

FROM SUCH SOURCES WOULD BE USEFUL IN THIS EVALUATION.

3. ONE EXAMPLE OF THIS NEW POSITION IS EXIMBANK'S AUTHORIZATION MARCH 16 OF A LETTER OF INTEREST TO CONSIDER FINANCING FOR RALPH M. PARSONS CO. TO SUPPORT ITS BID FOR A CRUDE OIL TERMINAL IN ABU DHABI.

4. COUNTRY CONDITIONS AND CREDITWORTHINESS OF THE INDIVIDUAL SHEIKDOMS IN THE UAE VARY. CONSEQUENTLY, EXIMBANK MUST TAKE THESE DISPARATE CONDITIONS INTO ACCOUNT AS REQUESTS INVOLVING THE DIFFERENT SHEIKDOMS ARE RECEIVED. EXIM OBTAINED INFORMATION FROM A LARGE LONDON BANK IN THE FALL OF 1977 INDICATING SIGNIFICANT AND INCREASING EXTERNAL DEBT FOR DUBAI AMOUNTING TO OVER DLRS 2.2 BILLION AND CONTRACTED ON MEDIUM TERMS WHICH WOULD ENTAIL FUTURE HEAVY DEBT SERVICE BURDEN. THIS LIMITED OFFICIAL USE

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RAISED THE QUESTION OF DUBAI'S ABILITY TO UNDERTAKE LARGE ADDITIONAL PROJECTS WHICH WERE NOT ADEQUATELY FINANCED. DISCUSSIONS WITH OTHER LONDON BANKS INDICATED CONCERN OVER RULER'S OVEREXTENSION ON PROJECT CREDITS. EMBASSY'S DATA IN REFTEL C ALSO INDICATED SIGNIFICANT EXTERNAL DEBT FIGURES FOR DUBAI'S OVERALL RESOURCES.

5. THIS DATA AND PROJECT EVALUATION WERE TAKEN INTO ACCOUNT IN ASSESSING THE DUGAS AND DUBAL PROJECTS IN THE PAST 18 MONTHS. BOTH WERE FOUND NOT TO OFFER REASONABLE ASSURANCE OF REPAYMENT. DUGAS WAS STRUCTURED ENTIRELY WITH DEBT AND DID NOT PROVIDE FOR ANY EQUITY CONTRIBUTION. THE CAPITAL INVESTMENT REQUIREMENTS FOR THIS UNDERTAKING APPEARED LARGE IN RELATION TO THE PROVEN RECOVERABLE RESERVES OF ASSOCIATED GAS. CASH FLOW GENERATED WAS INADEQUATE TO SERVICE THE PROJECT'S DEBT; THE BURDENSOME DEBT SERVICE REQUIREMENT CREATED A PROJECTED CUMULATIVE CASH FLOW DEFICIT OF NEARLY \$100 MIL. BY 1982. KERR MCGEE OF TULSA, OKLAHOMA THOUGHT SO LITTLE OF THE PROSPECTS FOR DUGAS THAT THEY IMMEDIATELY SPUN OFF THE SUNNINGDALE DUBAI SUBSIDIARY AFTER TAKING OVER ITS PARENT COMPANY, SUNNINGDALE OF CANADA.

6. PROJECT ECONOMICS FOR DUBAL WERE MORE UNFAVORABLE.

WHILE THE OUTLOOK FOR THE ALUMINUM MARKET IS A BRIGHT ONE AND THIS SMELTER PROJECT IN DUBAI SEEMS TO MAKE GOOD ECONOMIC SENSE, THE FINANCING PLAN PRECLUDED IT FROM BEING A FINANCIALLY VIABLE ONE. TOTAL CAPITAL COSTS OF NEARLY DLRS 800 MILLION WERE FINANCED ALMOST EXCLUSIVELY WITH DEBT. THE EQUITY CONTRIBUTION WAS ONLY 3 PERCENT. AS A RESULT, THE CUMULATIVE CASH FLOW

DEFICIT AFTER DEBT SERVICE REACHED DLRS 500 MILLION BY 1984. RECENT INDICATION FROM DUBAI OF THE SCALING DOWN OF THE SCOPE OF THIS PROJECT FROM FOUR TO TWO POT LINES SEEMS TO CONFIRM EXIM'S CONCLUSIONS.
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7. SINCE THE TWO PROJECTS APPEARED SO UNCREDITWORTHY, IT WAS SUGGESTED THAT THEY COULD BE CONSIDERED ONLY WITH SOME TYPE OF OUTSIDE SECURITY, SUCH AS A GUARANTEE FROM AN ARAB FUND OR FROM THE UAE FEDERATION, THOUGH IT WAS REALIZED THAT THERE WAS NOT MUCH LIKELIHOOD OF THIS POSSIBILITY.

8. EXIM IS READY TO CONSIDER FINANCING FOR PROJECTS IN DUBAI WHICH ARE SOUND FROM AN ENGINEERING AND FINANCIAL POINT OF VIEW.

9. WE NOTE THAT THE RULER OF ABU DHABI RECENTLY HAS PROVIDED A GUARANTEE FOR A EURODOLLAR BORROWING FOR SHARJAH. WE WONDER IF WE CAN REASONABLY EXPECT SUCH A GUARANTEE TO BE AVAILABLE FOR PROJECT FINANCING IN THE POORER EMIRATES, WHICH DO NOT HAVE RESOURCES TO SUPPORT LARGE INFRASTRUCTURE TYPE PROJECTS? VANCE

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